

## DEBT SERVICE

- Debt Management Policies
- Debt Service Requirements
- Definitions of Various Types of Debt
- Transfer to Debt Service Expenditure Summary Fiscal Years 2009-2013
- Debt Service Requirements Fiscal Years 2012-2013
- Debt Service Requirements Fiscal Years 2012-2016

This section includes information on the City of Hampton's debt service requirements for the upcoming fiscal year as well as the next five years. Detailed descriptions regarding the various types of debt are also included.

## DEBT MANAGEMENT POLICIES

The City maintains a separate Debt Service Fund that tracks long-term debt obligated for General Fund activities. Debt activity for Enterprise, Internal Service, Special Revenue and Public Works Funds are maintained in those individual funds. The Debt Service Fund accounts for the accumulation of resources (monies) for and the payment of general obligation debt of the City. Primary resources of the Debt Service Fund are derived from transfers from the General Fund and the proceeds of any refunding bond issues.

The City borrows money by issuing bonds or notes. According to the City Code, bonds and notes in anticipation of bonds may be issued for the purposes authorized by Council. The City issues this debt in order to fund (pay for) projects within its Capital Improvement Program.

There are several reasons why the City may choose to borrow money: to fund current and future needs; share the cost of a project with those utilizing the facility (project) in the future and to avoid excessive cost burden on current taxpayers.

The City sometimes uses short-term obligations (e.g. Bond Anticipation Notes, Capital Leases, and Line of Credit) to bridge the time gap between initiation of a project/purchase and the anticipated bond issuance, when the nature of a purchase precludes the issuance of long-term debt, or when it is fiscally responsible to do so. Prior to the issuance of any short or long-term obligations, the City considers the effect on their financial position, the ability to repay, and the Commonwealth of Virginia imposed legal debt limit.

Each fiscal year, the City of Hampton supports the acquisition, construction, renovation and infrastructure maintenance stated in its five-year adopted Capital Improvement Plan. The capital projects are funded from pay-as-you-go current revenues (general operating revenues), federal and state revenues, appropriation from fund balance and the issuance of general obligation bonds. The CIP provides a foundation to plan and structure debt in advance. The repayment period of the debt should not exceed the expected useful life of the capital project for which the debt is incurred. In doing so, specific sources are identified and dedicated to the retirement of debt. On April 11, 2007, the City adopted a financial policy regarding the minimum amount of general fund revenues that can be used to fund the CIP each year and over a rolling 5-year period. Each fiscal year the capital budget, which represents the first year of the five year CIP, is adopted as a part of the overall City's Council Approved Budget.

The FY13 Manager's Recommended Budget proposes a bond issue for \$46,862,500. The total proceeds will fund City capital projects and the Hampton City Schools maintenance projects. The Hampton City Schools' will continue to contribute \$2,000,000 to pay for part of the debt service attributed to the school major renovation and maintenance projects.

The City's credit ratings are as follows: AA+ by Standard and Poor's, Aa2 by Moody's Investor Services and AA by Fitch Rating. A credit rating is a financial indicator to the public/investor as to the credit worthiness (quality) of a debt issue such as bonds. These agencies evaluate the City's credit risk based on the following areas: record of debt payments on time, consistent and strong revenue growth; diverse, balanced revenue streams, reasonable, controlled expenditures, level of liquid reserves (including fund balance) and strong financial planning. The highest credit ratings

## DEBT MANAGEMENT POLICIES

are Aaa (Moody) and AAA (Standard & Poor's). Both agencies have intermediate ratings and default ratings of Ca, C (Moody) and D (Standard & Poor's). The bonds with default ratings are more likely unable to repayment of the debt.

## DEBT SERVICE REQUIREMENTS

This section contains information on the City's debt service requirement for the next five years. Debt service is similar to a mortgage; the City borrows funds by selling bonds and agrees to pay the money back to the purchasers of those bonds over a 20 to 30 year period. These funds received by the City are used for the acquisition, construction and renovation of public facilities and infrastructure as well as major equipment purchases.

The rate of interest paid for borrowing these funds is determined by credit ratings from rating agencies such as Standard and Poor's, Moody's Investor Service and Fitch Rating. The City's credit worthiness is rated similar to the credit ratings of an average citizen. The better the score, the lower the interest rate charged on borrowing. The highest credit ratings are Aaa (Moody) and AAA (Standard & Poor's).

The City ensures that it does not borrow more than it can afford by adopting a set of financial policies. For debt services the following policies apply:

- General obligation debt shall not exceed 3% of the assessed value of all real estate within the City subject to taxation.
- General obligation bonded debt together with indirect debt, which includes certain revenue backed debt and subject to appropriation or moral obligation commitments, and debt of certain special purpose entities (i.e. Community Development Authority) shall not exceed 4.5% of the estimated assessed value of all real and personal property subject to taxation within the City.

In addition to the financial policies, repayment period of the debt should not exceed the expected useful life of the capital project being funded. Included within this section, is the "Debt Service Requirement" statement which shows the repayment of general bonded debt, literary loans and revenue bonds for the City and the Virginia Air and Space Museum.

## DEFINITIONS OF VARIOUS TYPES OF DEBT

The City of Hampton's debt service requirement includes the following debt instruments: Bond Anticipation Notes (BANs), general bonded debt, school literary loans and debt associated with land acquired using a Letter of Credit. Debt service requirements for the Enterprise, Internal Service and Special Revenue funds are accounted for in that individual fund's activity.

### Bond Anticipation Notes

A municipal note issued to obtain temporary or short-term (one year or less) financing for projects that will be repaid through the sale of bonds of a planned long-term bond issue.

### Build America Bonds (BABS) Subsidy

The 2009 American Recovery and Reinvestment Act (ARRA) contained a provision for a new type of municipal security designed to assist the City in raising funds for local infrastructure projects. This program titled "Build America Bonds" program was under President Barack Obama's stimulus legislation as a means of lowering borrowing costs for state and local bond issuers such as the City and directing money towards the construction projects that would in return generate jobs.

### Capital Lease

A Capital Lease is similar to a loan agreement for the purchase of a capital asset on installments with fixed terms (number of months/years) and non-cancelable. The financing company's (lessor) services are limited to financing the asset; the City (lessee) pays all other costs including insurance, maintenance, and taxes. Essentially, capital leases are considered a sale by the lessor, and a purchase by the City (lessee), even though the title remains with the lessor. Leased assets are capitalized and shown on the City's balance sheet as a fixed asset with a corresponding non-current liability (lease payable).

### Debt Service

Debt Service refers to the amount of money necessary to pay principal and interest on outstanding bonds or other debt. This amount, is also known as the ***debt service requirement***, refers to the total principal and interest paid in a fiscal year and is referred to as the ***annual debt service***. "Total debt service" refers to the total principal and interest paid throughout the life of a bond issue.

## DEFINITIONS OF VARIOUS TYPES OF DEBT

### General Bonded Debt

General Bonded Debt is long term obligation debt that is backed by the “full faith and credit” pledge of the City’s general fund revenues.

### Line-of-Credit

The City has borrowed money using a line of credit in order to quickly take advantage of an opportunity to purchase physical assets such as real property acquisitions. To date the City has no outstanding notes.

The City has adopted financial policies relating to the amount of outstanding debt; the amount of overlapping debt; annual debt service costs and the payout ratio on general obligations indebtedness. The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings which may be issued by the City. For more details regarding the City’s policies on debt, refer to the *Compliance with City Financial Policies* section of this document.

### Literary Loans

In accordance with the *Code of Virginia* 22.1-146, Virginia State:

Board of Education may make loans or, subject to the approval of the General Assembly, loan interest rate subsidy payments from the Literary Fund to the school boards of the several school divisions making application therefore in the manner prescribed by law, authorized by the governing body and the school board, for the purposes of (i) erecting, altering or enlarging school buildings in such school divisions; (ii) purchasing and installing educational technology equipment and infrastructure; (iii) equipping school buses for alternative fuel conversions and for construction of school bus fueling facilities for supplying compressed natural gas or other alternative fuels; and (iv) refinancing or redemption of negotiable notes, bonds, and other evidences of indebtedness or obligations incurred by a locality on behalf of a school division which has an application for a Literary Fund loan for an approved school project pending before the Board of Education. For the purpose of this section, "alternative fuels" means motor fuels other than gasoline and diesel fuel.

The City’s indebtedness includes loans from the State Literary Loan Fund. One loan was used to fund the City’s share of the New Horizons Technical Center, a regional high school vocational and technical center. The other loans were used for major repairs or renovations to four elementary schools and Hampton High School. Repayment is annual installments over a 20-year term at 3% interest from General Fund resources.

## DEFINITIONS OF VARIOUS TYPES OF DEBT

### Recovery Zone Economic Development Bonds Subsidy

A new type of bond created by the American Recovery and Reinvestment Act (ARRA) passed by U.S. Congress in February 2009. The bond proceeds maybe used to finance City projects with economic development outcomes. These projects would have to take place in a “Recovery Zone”. A recovery zone is defined as an area of the City that has significant poverty, unemployment, home foreclosures or general distress or that has already been federally designated as an Empowerment Zone or Renewal Community.

### Revenue Bonds

The Hampton History Museum issued revenue bonds which are a special type of municipal bond where repayment is solely from revenues generated from and associated with the Hampton History Museum. Only those revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the bonds; other revenues such as property tax revenues are not so encumbered.



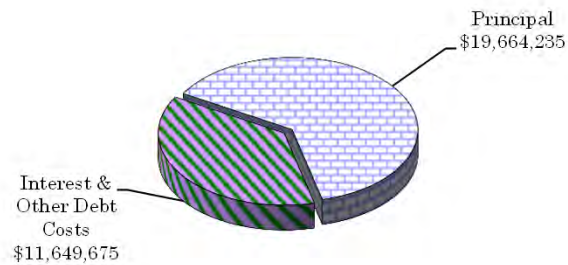
## TRANSFER TO DEBT SERVICE

### Expenditure Summary

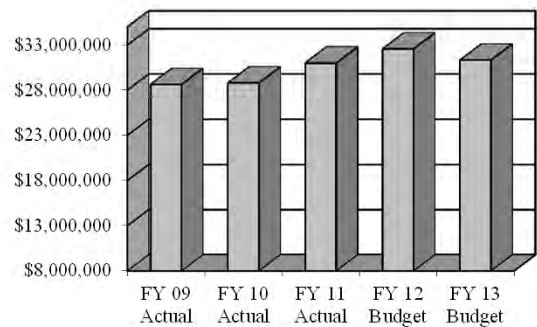
	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Budget	FY 13 Budget	Increase/ (Decrease)
<b>Expenditures</b>						
Principal	13,513,036	15,953,613	18,393,685	19,455,864	19,664,235	208,371
Interest & Other Debt Costs	15,112,684	12,836,596	12,599,644	13,097,808	11,649,675	(1,448,133)
<b>Grand Total</b>	<b>28,625,720</b>	<b>28,790,209</b>	<b>30,993,329</b>	<b>32,553,672</b>	<b>31,313,910</b>	<b>(1,239,762)</b>

**Budget Note:** The primary decrease in debt service is the result of an anticipated bond issuance for \$35.2 million in fiscal year 2012, was postponed. For FY13, a \$10,287,500 bond issue is being proposed.

### FY 2013 Service Summary



### Budget Comparison FY 09-13





## Debt Service Requirements Fiscal Years 2012 - 2013

	Council Approved FY2012	Manager's Recommended FY2013	Net Increase/ (Decrease)
<b>GENERAL BONDED DEBT:</b>			
Principal	\$17,425,000	\$18,360,000	\$935,000
Interest	12,454,819	12,137,941	(316,878)
Proposed FY12 Bond Issue (1)	880,000	0	(880,000)
Land Acquisition Principal & Interest	178,619	0	(178,619)
<b>Subtotal</b>	<b>30,938,438</b>	<b>30,497,941</b>	<b>(440,497)</b>
Less-Repayment Steam Plant-FY02 Bond	(391,942)	(391,802)	\$140
Less-Repayment Steam Plant-FY05 Bond	(159,459)	(159,407)	52
Less-Repayment Stormwater Management	(400,848)	(401,546)	(698)
Less-Bass Pro Interest Income	(15,375)	0	15,375
Less-VRS Bond Interest Income	0	(58,871)	(58,871)
Less-Build America Bonds Subsidy	(97,891)	(97,891)	0
Less-Recovery Zone Economic Dev Bonds Subsidy	(38,502)	(38,502)	0
Less-Qualified School Construction Bonds Subsidy	(135,140)	(135,140)	0
<b>Net Debt Service-General Bonded Debt</b>	<b>(1,239,157)</b>	<b>29,214,782</b>	<b>(44,002)</b>
<b>Other Long-term Debt To Be Paid From</b>			
<b>General Fund Resources</b>			
Literary Loan-Armstrong (\$8,500)*	7,068	0	(7,068)
Literary Loan-Bryan (\$16,250)*	16,738	0	(16,738)
Literary Loan-Moton (\$15,000)*	15,450	0	(15,450)
Literary Loan-Burbank(\$16,300)*	16,789	0	(16,789)
Literary Loan-Hampton H.S. (\$92,000)*	99,971	97,211	(2,760)
<b>Subtotal</b>	<b>156,016</b>	<b>97,211</b>	<b>(58,805)</b>
School Bond-Principal & Interest	1,109,400	1,113,563	4,163
Museum Revenue Bonds	1,554,700	855,279	(699,421)
<b>Total Debt Service BEFORE Bank Charges</b>	<b>32,519,397</b>	<b>31,280,835</b>	<b>(1,238,562)</b>
Bank Administrative Charges and Bond Issuance Costs	10,000	10,000	0
Letter of Credit Fees	24,275	23,075	(1,200)
<b>Total Debt Service from General Fund Resources</b>	<b>\$ 32,553,672</b>	<b>\$ 31,313,910</b>	<b>\$ (1,239,762)</b>

**Notes:**

(1) Proposed FY12 bond issue of \$35,190,000 scheduled for issuance in July 2011 was postponed.

## DEBT SERVICE REQUIREMENTS

### Fiscal Years 2012 - 2016

	Council Approved	Manager's Recommended			
	FY2012	FY2013	FY2014	FY2015	FY2016
<b>GENERAL BONDED DEBT:</b>					
Principal	\$17,275,000	\$18,360,000	\$19,175,000	\$21,195,000	\$22,170,000
Interest	12,319,679	12,140,635	10,937,161	10,100,642	9,088,113
Proposed FY12 Bond Issue <sup>(1)</sup>	880,000	0	0	0	0
Proposed FY13 Bond Issue <sup>(2)</sup>	0	0	3,795,000	3,793,500	3,793,500
Proposed FY14 Bond Issue <sup>(3)</sup>	0	0	0	824,500	824,500
Proposed FY15 Bond Issue <sup>(4)</sup>	0	0	0	0	824,500
Qualified School Construction Bond \$2.5 Million	285,140	0	0	0	0
Land Acquisition Principal & Interest	178,619	0	0	0	0
<b>Subtotal</b>	<b>30,938,438</b>	<b>30,500,635</b>	<b>33,907,161</b>	<b>35,913,642</b>	<b>36,700,613</b>
Less- Repayment Steam Plant- FY02 Bond	(391,942)	(391,802)	(391,818)	(391,934)	(392,090)
Less- Repayment Steam Plant- FY05 Bond	(159,459)	(159,407)	(159,422)	(159,547)	(159,292)
Less- Repayment Stormwater Management- FY95 Bond	(400,848)	(401,546)	(402,111)	(404,496)	0
Less- Bass Pro Bond Income	(15,375)	0	0	0	0
Less- VRS Bond Interest Income	0	(58,871)			
Less- Build America Bonds Subsidy	(97,891)	(97,891)	(97,891)	(97,891)	(97,891)
Less- Recovery Zone Economic Dev Bonds Subsidy	(38,502)	(38,502)	(38,502)	(38,502)	(38,502)
Less- Qualified School Construction Bonds Subsidy	(135,140)	(135,140)	(135,140)	(135,140)	(135,140)
<b>Net Debt Service- General Bonded Debt</b>	<b>29,699,281</b>	<b>29,217,476</b>	<b>32,682,277</b>	<b>34,686,132</b>	<b>35,877,698</b>
<b>Other Long-term Debt To Be Paid From</b>					
<b>General Fund Resources</b>					
Literary Loan- Armstrong (\$8,500)*	7,068	0	0	0	0
Literary Loan- Bryan (\$16,250)*	16,738	0	0	0	0
Literary Loan- Moton (\$15,000)*	15,450	0	0	0	0
Literary Loan- Burbank (\$16,300)*	16,789	0	0	0	0
Literary Loan- Hampton H.S.. (\$92,000)*	99,971	97,211	84,167	0	0
<b>Subtotal</b>	<b>156,016</b>	<b>97,211</b>	<b>84,167</b>	<b>0</b>	<b>0</b>
School Bond- Principal & Interest	1,109,400	1,113,563	1,110,349	0	0
Museum Revenue Bonds	1,554,700	852,585	0	0	0
<b>Total Debt Service BEFORE Bank Charges</b>	<b>32,519,397</b>	<b>31,280,835</b>	<b>33,876,793</b>	<b>34,686,132</b>	<b>35,877,698</b>
Bank Administrative Charges and Bond issuance costs	10,000	10,000	10,000	10,000	10,000
Letter of Credit Fees	24,275	23,075	21,875	0	0
<b>Total Debt Service from Gen. Fund Resources</b>	<b>\$32,553,672</b>	<b>\$31,313,910</b>	<b>\$33,908,668</b>	<b>\$34,696,132</b>	<b>\$ 35,887,698</b>

\*represents principal payments

#### Notes:

- (1) Proposed FY12 bond issue of \$35,190,000 scheduled to be issued in July 2011 was postponed.
- (2) Proposed FY13 bond issue of \$46,862,500 assuming issuance in January 2013.
- (3) Proposed FY14 bond issue of \$10,287,500 assuming issuance in January 2014.
- (4) Proposed FY15 bond issue of \$10,287,500 assuming issuance in January 2015.